

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF DELAWARE

KYTCH, INC., )  
)  
Plaintiff, )  
) C.A. No. 22-279 (MN)  
v. )  
)  
McDONALD'S CORPORATION, )  
)  
Defendant. )  
\_\_\_\_\_)  
)  
KYTCH, INC., )  
)  
Plaintiff, )  
) C.A. No. 22-606 (MN)  
v. )  
)  
TAYLOR COMMERCIAL FOODSERVICE, )  
LLC, d/b/a TAYLOR COMPANY, )  
)  
Defendant. )

Wednesday, March 29, 2023  
10:00 a.m.  
Motion Hearing

844 King Street  
Wilmington, Delaware

BEFORE: THE HONORABLE MARYELLEN NOREIKA  
United States District Court Judge

1 APPEARANCES:

2 FARNAN LLP

3 BY: MICHAEL FARNAN, ESQ.

4 -and-

5 CLARE LOCKE

6 BY: DANIEL P. WATKINS, ESQ.

7 BY: ELIZABETH M. LOCKE, ESQ.

8 BY: AMY ROLLER, ESQ.

9 Counsel for the Plaintiff

10 YOUNG CONAWAY STARGATT & TAYLOR LLP

11 BY: ANNE SHEA GAZA, ESQ.

12 BY: SAMANTHA G. WILSON, ESQ.

13 -and-

14 ORRICK HERRINGTON

15 BY: CATHERINE Y. LUI, ESQ.

16 BY: KRISTOPHER R. WOOD, ESQ.

17 Counsel for the Defendant  
18 McDonald's Corporation

19 SKADDEN ARPS SLATE MEAGHER & FLOM

20 BY: EDWARD MICHELETTI, ESQ.

21 BY: SARAH RUNNELLS MARTIN, ESQ.

22 BY: ABRAHAM A. TABAIE, ESQ.

23 Counsel for the Defendant  
24 Taylor Commercial Foodservice LLC

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09:42:57 1 THE COURT: Good morning, everyone. Please be  
10:06:08 2 seated. Let's start with some brief introductions.

10:06:12 3 MR. FARNAN: Good morning, Your Honor, Michael  
10:06:14 4 Farnan for the plaintiff. With me today are Daniel Watkins,  
10:06:18 5 Amy Roller and Libby Locke of Clare Locke.

10:06:21 6 THE COURT: Good morning to all of you.

10:06:22 7 MS. GAZA: Good morning, Your Honor. Anne Gaza  
10:06:25 8 of Young Conaway on behalf of McDonald's. I'm joined by my  
10:06:29 9 colleague, Samantha Wilson also of Young, Conaway, as well  
10:06:31 10 as Catherine Liu of Orrick and Kristopher Wood of Orrick.

10:06:31 11 THE COURT: All right. Good morning to you.

10:06:41 12 MR. MICHELETTI: Good morning, Your Honor, Ed  
10:06:45 13 Micheletti from Skadden Arps on behalf of defendant Taylor.  
10:06:47 14 With me today is my colleague Sarah Martin from the  
10:06:51 15 Wilmington office and my partner Abe Tabaie from our  
10:06:54 16 California Palo Alto office.

10:06:54 17 THE COURT: Good morning to all of you as well.

10:06:59 18 All right. So we have reviewed the papers here  
10:07:03 19 and I guess my first question is I don't really understand  
10:07:08 20 why these cases are here. I mean, there was a case going in  
10:07:13 21 the state court. Plaintiff south permission to add a Lanham  
10:07:18 22 Act claim. It seems like they had permission granted and  
10:07:23 23 then suddenly everyone started coming out to Delaware. Why  
10:07:24 24 don't you give me some understanding of what's going on  
10:07:27 25 because, you know, it just doesn't seem like this is

10:07:30 1       terribly efficient to have cases going in multiple  
10:07:36 2       districts.

10:07:38 3               MR. WATKINS:   Yes, Your Honor.   Would you like  
10:07:42 4       me to speak at the podium?

10:07:44 5               THE COURT:   Sure.

10:07:46 6               MR. WATKINS:   Thank you for giving us the time  
10:07:49 7       to address the Court this morning.   And I'll try to be as  
10:07:52 8       responsive as I can to the Court's questions.

10:07:54 9               You correctly identified that this Alameda  
10:07:57 10       County action we moved to amend the complaint to add among  
10:08:01 11       other things a federal Lanham Act claim.   Once we notified  
10:08:04 12       Taylor of our intention to do so, Taylor replied that they  
10:08:07 13       intended to the remove the case to the Northern District of  
10:08:10 14       California.   That gave us quite a cause for concern as we've  
10:08:14 15       alleged in the complaint.   The tortious conduct by  
10:08:17 16       McDonald's and Taylor has driven Kytch to the brink of  
10:08:21 17       bankruptcy and removal to the federal court would have wiped  
10:08:24 18       away more than a year of litigation before Judge Markman in  
10:08:30 19       Alameda County.   Additionally --

10:08:32 20               THE COURT:   But that doesn't mean that it  
10:08:34 21       belongs here.   Why are we not wiping away that by bringing  
10:08:36 22       it here across the country?

10:08:42 23               MR. WATKINS:   So the co-defendants in the state  
10:08:44 24       court action, there are two others, one is Tyler Gamble who  
10:08:47 25       was a trial participant in Kytch's product trial.   We have

10:08:51 1 sued him for breach of contract claims. And in that  
10:08:54 2 contract there is a forum selection clause that required us  
10:08:57 3 to sue him in California state court.

10:08:59 4 THE COURT: I get it. I understand that. But  
10:09:01 5 it's not explaining to me why it makes sense for me to have  
10:09:06 6 this when everything else seems to be going on in  
10:09:11 7 California. Like, what's the difference between going to  
10:09:14 8 California -- removing to the Northern District of  
10:09:17 9 California and then starting over in Delaware, that's what  
10:09:21 10 I'm not understanding.

10:09:23 11 MR. WATKINS: So we had some concerns about  
10:09:26 12 arguments related to personal jurisdiction and given that  
10:09:29 13 all three parties --

10:09:30 14 THE COURT: Who doesn't have -- do you guys  
10:09:32 15 agree that there is personal jurisdiction of the defense in  
10:09:37 16 California? I mean, come on, McDonald's, Taylor, Taylor is  
10:09:41 17 already in California, right? So McDonald's, any issues  
10:09:44 18 with personal jurisdiction or venue?

10:09:47 19 MS. LUI: Your Honor, we didn't have that choice  
10:09:50 20 at that time, but that is certainly not a situation where we  
10:09:52 21 anticipated that we would be not contesting personal  
10:10:00 22 jurisdiction.

10:10:02 23 THE COURT: I don't know what that meant. There  
10:10:04 24 were too many notes in there.

10:10:05 25 MS. LUI: My apologies, Your Honor. It's

10:10:10 1       neither here nor there at this time --

10:10:10 2               THE COURT:   It is here or there because I want  
10:10:12 3       to know.   So McDonald's, he's saying there were concerns  
10:10:17 4       about personal jurisdiction.   McDonald's, a multinational  
10:10:22 5       corporation, you're saying there is no personal jurisdiction  
10:10:25 6       in Northern District of California or venue isn't  
10:10:28 7       appropriate?

10:10:28 8               MS. LUI:   Right.   We were not anticipating --

10:10:31 9               THE COURT:   So are you saying that it's  
10:10:31 10       inappropriate?

10:10:34 11              MS. LUI:   No, Your Honor.

10:10:35 12              THE COURT:   So there is venue?

10:10:37 13              MS. LUI:   There is venue.

10:10:38 14              THE COURT:   And personal jurisdiction.

10:10:39 15              MS. LUI:   We anticipate that that would be  
10:10:41 16       likely, yes, Your Honor.

10:10:43 17              THE COURT:   Likely?   Really.

10:10:44 18              MS. LUI:   Yes, Your Honor.

10:10:45 19              THE COURT:   What does that mean?

10:10:46 20              MS. LUI:   Yes, we would anticipate that had we  
10:10:48 21       been brought in the Alameda court action, that personal  
10:10:50 22       jurisdiction would not have been contested.

10:10:52 23              THE COURT:   All right.

10:10:54 24              MR. MICHELETTI:   Your Honor, I don't know if you  
10:10:55 25       want to hear from Taylor, Your Honor.   Taylor, the Court

10:11:00 1 already held that there is personal jurisdiction.

10:11:03 2 THE COURT: Yeah, I was going to say that one  
10:11:05 3 seemed moot to me.

10:11:07 4 MR. MICHELETTI: That's an easy one.

10:11:08 5 THE COURT: Thank you. Go ahead.

10:11:09 6 MR. WATKINS: Your Honor, I think the shorter  
10:11:11 7 answer to what you're asking is we were presented with  
10:11:14 8 several different claims across several different  
10:11:17 9 defendants. We filed a federal Lanham Act claim against  
10:11:21 10 Taylor and McDonald's here where Taylor and McDonald's are  
10:11:25 11 incorporated. And I certainly understand the Court's  
10:11:27 12 concerns related to conserving judicial resources.

10:11:31 13 THE COURT: I mean, I have a big docket. I  
10:11:33 14 can't afford to deal with duplicative litigation and  
10:11:37 15 inefficiency. So this case caught my attention because you  
10:11:41 16 all said that this comes out of the same series of facts,  
10:11:44 17 and so it just seems like an incredibly inefficient way to  
10:11:51 18 proceed.

10:11:54 19 MR. WATKINS: So if the Court is concerned about  
10:11:57 20 those judicial resources, then the appropriate question is  
10:12:00 21 whether Colorado River abstention applies. In Taylor's  
10:12:02 22 reply, there is a throwaway sentence that indicates that  
10:12:04 23 Kytch may agree that that authority is vested by the court  
10:12:10 24 within its inherent powers, but that is not the case. The  
10:12:12 25 Third Circuit in *McKenna* made clear that after determining

10:12:21 1 the two proceedings are parallel then the court is required  
10:12:24 2 to go through the abstention factors.

10:12:26 3 As a reminder, this Court's obligation to hear  
10:12:29 4 cases that -- in which Congress granted jurisdiction is  
10:12:33 5 virtually unflagging. And standing alone concerns for  
10:12:37 6 avoiding piecemeal litigation are not sufficient to overcome  
10:12:41 7 that obligation. So I'm happy to talk about the abstention  
10:12:46 8 standard and why that doesn't apply --

10:12:47 9 THE COURT: How about I just transfer it,  
10:12:49 10 because it seems like I can deal with the transfer factors.  
10:12:51 11 I can transfer this to the Northern District of California.

10:12:57 12 MR. WATKINS: Your Honor, we're prepared to  
10:12:59 13 brief that as appropriate.

10:13:02 14 THE COURT: No, I can do this *sua sponte* if I  
10:13:04 15 want if I can go through the factors, so why shouldn't I  
10:13:06 16 just transfer it out to the Northern District of California?  
10:13:10 17 I don't understand why if you're saying you didn't want to  
10:13:13 18 start the whole case over, why did you bring it here instead  
10:13:17 19 of Taylor in the Northern District of California?

10:13:19 20 MR. WATKINS: Your Honor, the reason really is  
10:13:22 21 that this is a home game for the defendants. This is also  
10:13:24 22 where Taylor -- excuse me, this is also where Kytch is  
10:13:27 23 located. And we were choosing between removal in the  
10:13:30 24 Northern District of California versus filing this case  
10:13:33 25 against Taylor and McDonald's --



10:13:38 1 THE COURT: Where is Kytch located?

10:13:40 2 MR. WATKINS: Kytch is incorporated in Delaware.

10:13:43 3 THE COURT: I know that. Where is it located?

10:13:45 4 MR. WATKINS: Their office is in Alameda County.

10:13:49 5 THE COURT: Okay. So why is this not claim  
10:13:52 6 splitting, why is this the abstention.

10:14:03 7 MR. WATKINS: Under *Walton* which is the Third  
10:14:05 8 Circuit authority that handed down the claim splitting  
10:14:08 9 doctrine there are three factors that must be present. It's  
10:14:11 10 the same court, the same claims and the same parties. Here  
10:14:15 11 this case where Kytch has asserted federal Lanham Act is  
10:14:19 12 obviously the District Court of Delaware. The related state  
10:14:21 13 court litigation is pending in Alameda County, and that ends  
10:14:24 14 the inquiry frankly.

10:14:28 15 THE COURT: Yeah, but why does it? I mean, you  
10:14:31 16 actually got approval to file these claims in a state court  
10:14:35 17 in Alameda County, the exact claim that you now want to  
10:14:38 18 bring here.

10:14:41 19 MR. WATKINS: Your Honor, Kytch is the master of  
10:14:44 20 its complaint. It's free to file federal claims in federal  
10:14:47 21 court and that's what we did here. The claim splitting  
10:14:49 22 doctrine --

10:14:50 23 THE COURT: But you did it after you asked for  
10:14:53 24 permission -- you basically made the court in Alameda County  
10:14:55 25 waste its time saying sure, you can bring a Lanham Act claim

10:15:03 1 here and then once it did it, you were like, but then we  
10:15:08 2 didn't see this strategic move on the defendant's part so  
10:15:12 3 too bad, court, you can just waste your time and we're going  
10:15:15 4 to go elsewhere.

10:15:16 5 MR. WATKINS: Two responses to that, Your Honor.  
10:15:17 6 We didn't waste Judge Markman's time in Alameda County.  
10:15:21 7 Shortly after Taylor's counsel indicated that they would be  
10:15:26 8 removing to federal court, we conducted an informal  
10:15:29 9 discovery conference and notified the court that we would be  
10:15:32 10 withdrawing our federal Lanham Act claim. Mr. Tabaie was  
10:15:37 11 present on the hearing and that was known to the court  
10:15:39 12 beforehand. There was nothing improper about the amendment  
10:15:42 13 process. Judge Markman granted that motion and our Amended  
10:15:46 14 Complaint that withdrew that federal Lanham Act claim.

10:15:48 15 But more importantly, the claim splitting  
10:15:50 16 doctrine is incredibly narrow and Taylor spent most of its  
10:15:55 17 brief addressing legal principles that relate to claim  
10:16:01 18 preclusion and *res judicata*. But neither of those issues  
10:16:03 19 are present here. This is not any kind of circumvention of  
10:16:06 20 an adverse state court ruling that we're trying to avoid,  
10:16:08 21 instead to avoid removal of federal court in California for  
10:16:12 22 the reasons that I have said before we filed this case  
10:16:14 23 separately in Delaware. There is not a single case  
10:16:18 24 indicating that that's inappropriate or grounds for  
10:16:22 25 abstention or claim splitting.

10:16:23 1 THE COURT: I guess my option is to according to  
10:16:27 2 you, either to hear it here or transfer it to California,  
10:16:31 3 right?

10:16:31 4 MR. WATKINS: So I didn't say at any point, Your  
10:16:34 5 Honor, that it would be appropriate to transfer this to  
10:16:36 6 California.

10:16:37 7 THE COURT: I know you didn't say that, but that  
10:16:38 8 doesn't mean I can't find it. Let me hear from the  
10:16:41 9 defendants since these are their motions.

10:16:43 10 MR. WATKINS: Thank you, Your Honor.

10:16:44 11 THE COURT: I'm not sure why plaintiff is  
10:16:47 12 speaking first anyway. I kind of missed that.

10:16:49 13 Go ahead, defendant, let me hear from Taylor  
10:16:52 14 first.

10:17:00 15 So claim splitting. He says I need to have the  
10:17:04 16 same court, don't have the same court, so what do I do?

10:17:10 17 MR. MICHELETTI: Your Honor, he's not -- that's  
10:17:12 18 not correct. His position is not correct. The doctrine  
10:17:15 19 isn't limited to just cases that are stacked back to back.

10:17:19 20 THE COURT: Give me your best law.

10:17:22 21 MR. MICHELETTI: Sure. There is three cases in  
10:17:24 22 the -- within the Third Circuit that we cite in our papers,  
10:17:28 23 *Hannah, Sparks* and *Herbert*, all of which stand for the  
10:17:31 24 proposition that cases in multiple courts can be -- you can  
10:17:32 25 apply the claim splitting doctrine in that circumstance.

10:17:39 1 *Hannah* is in the Middle District of Pennsylvania. *Sparks* is  
10:17:45 2 in the Eastern District of Pennsylvania and *Herbert* is in  
10:17:46 3 the Western District of Pennsylvania. Bot of those are it's  
10:17:48 4 a one federal court, a party takes a claim like *Kytch* has  
10:17:52 5 done here and files separately in another court on the same  
10:17:55 6 facts and circumstances.

10:17:56 7 THE COURT: Do you have a mix of federal and  
10:17:59 8 state?

10:17:59 9 MR. MICHELETTI: Yes. So within the Third  
10:18:02 10 Circuit no, I just don't think it's as developed as other  
10:18:05 11 locations, but we do cite two cases in our papers. The most  
10:18:09 12 prominent one and I think the one that has the most powerful  
10:18:13 13 persuasive authority for purposes of this fact pattern in  
10:18:16 14 particular is *Mohammand v. HSBC Bank* and in that case it was  
10:18:21 15 a state case where a claim got chipped off and then it --  
10:18:27 16 the chipped off claim was filed in federal court, the claim  
10:18:31 17 splitting occurred in federal court. And the court  
10:18:34 18 dismisses the action saying narrowing it down to either  
10:18:38 19 claims being brought in the same court or only in federal  
10:18:42 20 court would too improperly narrow the defense. That's what  
10:18:46 21 the court said there. And the court also said the claim  
10:18:49 22 splitting doctrine does not become irrelevant simply because  
10:18:53 23 the plaintiff attempts to split their claims between a state  
10:18:57 24 and federal court rather than between two federal courts.  
10:18:59 25 The it's for obvious reasons. The policy and the core of

10:19:00 1 the claim splitting doctrine is to prevent piecemeal  
10:19:01 2 litigation and forum shopping, both of which I think the  
10:19:04 3 plaintiffs respectively conceived here today in their  
10:19:07 4 arguments.

10:19:07 5 We think dismissal is certainly warranted under  
10:19:10 6 claim splitting based on our -- based on our authority and  
10:19:13 7 the argument.

10:19:14 8 I think to the extent the Court wanted to stay  
10:19:17 9 this action, it could do so for very similar reasons. The  
10:19:21 10 California action is far more procedurally advanced than  
10:19:25 11 where we are now. They're going to trial the end of  
10:19:28 12 November. The same parties are involved. The same facts  
10:19:31 13 and circumstances, all of this arises out of the same  
10:19:34 14 nucleus of operative facts. There are a whole host of  
10:19:37 15 reasons as to why the stay could apply as well. My friends  
10:19:40 16 from Kytch --

10:19:41 17 THE COURT: The basis of the stay is what? I  
10:19:44 18 mean is claim splitting, I don't think my option in claim  
10:19:47 19 splitting is to stay.

10:19:48 20 MR. MICHELETTI: Claim splitting is dismissal.  
10:19:52 21 That's a dismissal argument, which we think --

10:19:53 22 THE COURT: What's the basis that you're saying  
10:19:56 23 a stay would be appropriate?

10:19:57 24 MR. MICHELETTI: Your Honor, the way we put it  
10:19:58 25 and it's similar to the cases, *Calamos Asset Management*,

10:20:03 1 *First American Title Insurance Company, and Univar v.*  
10:20:07 2 *Geisenberger*, all of which the District of Delaware invoked  
10:20:10 3 their inherent power to manage its docket and stay a case in  
10:20:15 4 deference to a more advanced proceeding effectively, the  
10:20:19 5 same issues or very nearly identical issues are going to be  
10:20:25 6 addressed. And that's what we argued here for the stay.  
10:20:27 7 It's a very logical argument within the Court's discretion,  
10:20:31 8 pretty simple in my view.

10:20:33 9 THE COURT: Let's say that I say we have to deal  
10:20:35 10 with abstention. Why would it be -- why would this  
10:20:40 11 circumstance justify abstention?

10:20:43 12 MR. MICHELETTI: I think it's justified for all  
10:20:45 13 of the same reasons. We have the similar parties,  
10:20:47 14 overlapping parties, overlapping evidence, overlapping facts  
10:20:51 15 and circumstances, we have a first filed case that's  
10:20:57 16 procedurally advanced, and among other things, Your Honor,  
10:21:00 17 there was a very intensive fact-based preliminary injunction  
10:21:05 18 application that was denied in California and now they're  
10:21:07 19 heading towards trial in November. Every indicator under  
10:21:11 20 Colorado River is ticked off in favor of a stay in that  
10:21:15 21 context as well.

10:21:21 22 THE COURT: So I'm sorry, in favor of a stay?

10:21:24 23 MR. MICHELETTI: Or abstention.

10:21:26 24 THE COURT: Abstention. Abstentions doesn't  
10:21:30 25 necessarily mean I stay it. Could I dismiss it?

10:21:33 1 MR. MICHELETTI: I think you could dismiss or  
10:21:34 2 stay, Your Honor, under the law.

10:21:36 3 THE COURT: Okay. All right. Now, I think I  
10:21:41 4 have enough from Taylor for right now. Let me hear from  
10:21:45 5 McDonald's.

10:21:46 6 MR. MICHELETTI: Thank you, Your Honor.

10:21:48 7 THE COURT: And again, here, this seems like  
10:21:50 8 such an inefficient use of effort when -- I mean, the  
10:21:57 9 California state court has already addressed -- the  
10:22:01 10 complaint is almost identical, the facts alleged in the  
10:22:05 11 complaint. The California state court has already addressed  
10:22:09 12 most of these claims that you have, tortious interference,  
10:22:13 13 trade liable, intentional interference with business  
10:22:21 14 expectancy, negligent interference with business expectancy,  
10:22:25 15 deceptive trade practices, what are we doing here?

10:22:28 16 MS. LUI: Your Honor, Catherine Lui for  
10:22:31 17 McDonald. We do not have a choice in this matter and we are  
10:22:34 18 in Delaware. And the Alameda --

10:22:35 19 THE COURT: What if I decided I wanted to *sua*  
10:22:39 20 *sponte* move it to California, would you object?

10:22:42 21 MS. LUI: Transfer it to the Northern District,  
10:22:44 22 Your Honor?

10:22:46 23 THE COURT: Yes.

10:22:48 24 MS. LIU: I don't have my client's authorization  
10:22:50 25 on that, but I understand that if that's a *sua sponte* order,

10:22:51 1 that's certainly within your discretion, Your Honor. I have  
10:22:53 2 not discussed that with my client.

10:22:56 3 THE COURT: I understand that. I just sprung  
10:22:58 4 that on you. I'm not suggesting that you actually need an  
10:23:02 5 answer, but I was curious. Okay.

10:23:04 6 MS. Liu: Thank you, Your Honor.

10:23:05 7 Our issues are related to the false advertising  
10:23:09 8 claims that we would like to discuss with you unless there  
10:23:13 9 are any other specific questions I can answer at this time,  
10:23:15 10 Your Honor. Otherwise I would like to focus really on the  
10:23:19 11 Lanham Act claim. And the complaint arises from McDonald's  
10:23:23 12 issuing a weekly informational newsletter called the Field  
10:23:28 13 Brief that McDonald's sends to its existing franchisees.  
10:23:31 14 It's not a solicitation for any purchase of McDonald's  
10:23:34 15 products, instead it provides information to our franchisees  
10:23:38 16 about a variety of topics including webcast, planning tools,  
10:23:41 17 officer nominations, and safety issues, and that's seen  
10:23:47 18 within Exhibit 1 of the Christopher Wood declaration, ECF  
10:23:51 19 11. The safety of McDonald's restaurants is of paramount  
10:23:57 20 concern. McDonald's must ensure the safety for all aspects  
10:24:00 21 of its restaurants including the equipment used in its  
10:24:04 22 restaurants. And this was the person of the Field Brief.  
10:24:06 23 McDonald's needed to warn its franchisees of serious safety  
10:24:10 24 regs of the Kytch device in addition to delivering other  
10:24:13 25 information relevant to its franchisees. The Field Brief



10:24:16 1 was not an advertisement and was not a tool used in some  
10:24:20 2 vast conspiracy with Taylor to destroy Kytch. As a result,  
10:24:25 3 the Lanham Act at the false advertising claim failed because  
10:24:31 4 the Field Brief is not a commercial advertisement or  
10:24:34 5 promotion.

10:24:37 6 In the --

10:24:38 7 THE COURT: How do I know that -- I mean, you're  
10:24:40 8 asking me to dismiss, so I have to look at the complaint and  
10:24:44 9 take the well-pleaded allegations as true. So okay, I don't  
10:24:50 10 know what a Field Brief is. They are telling me what a  
10:24:54 11 Field Brief is. How does this get you to a motion to  
10:24:59 12 dismiss when you say it's just -- it's not, it's not an  
10:25:04 13 advertisement, it's not anything that falls within the  
10:25:09 14 Lanham Act.

10:25:07 15 MS. LIU: Right. The Lanham Act has very clear  
10:25:09 16 statutory language, Your Honor, that has to be in a  
10:25:12 17 commercial advertising and promotion --

10:25:14 18 THE COURT: I get it. I get it. I'm saying I  
10:25:17 19 don't know why this doesn't fit in as pleaded.

10:25:20 20 MS. LIU: Yes, Your Honor. So a couple of  
10:25:22 21 things. To find that there is a commercial advertising or  
10:25:24 22 promotion it has to be an advertise -- or speech that is  
10:25:27 23 designed to influence consumers to buy defendant's products.  
10:25:30 24 That's within the *Gordon & Breach* factors. And it is clear  
10:25:32 25 within the allegations of the complaint that the Open

Kitchen device that is discussed in the Field Brief is not McDonald's product. It is pled throughout the complaint that it is either a product of Taylor and/or its affiliate Powerhouse Dynamics. For example, in complaint paragraph 230 and 237 replete with detail related to how that the Open Kitchen device is a Powerhouse Dynamic and/or Taylor product.

There is no allegation that McDonald's manufacturers Open Kitchen, that McDonald's sells Open Kitchen, that McDonald's will earn a dime of revenue from the sale of Open Kitchen. From those, from those lack of allegations the Court can find that Open Kitchen is not a McDonald's product.

Kytch has not sufficiently alleged that Open Kitchen is a McDonald's product because to do so when it is clear that McDonald's is not the manufacturer of the product, Kytch has to allege either an agency relationship or a direct financial interest in the sales of the actual manufacturer's product. And again, there are no such allegations. All that Kytch relies upon is the Field Brief itself. And that their general conclusory allegation that because McDonald's and Taylor developed and worked on the product that this renders it McDonald's product. But that's not the case law. They have to show agency or a direct financial interest and that's not been alleged whatsoever in

10:27:26 1 the complaint.

10:27:28 2 It's also not commercial speech, Your Honor,  
10:27:33 3 under the *Gordon & Breach* factors. It is not an  
10:27:37 4 advertisement because it is not soliciting that any of our  
10:27:42 5 existing franchisees buy anything from McDonald's. There is  
10:27:45 6 no price related to it. McDonald's is in the business of  
10:27:49 7 selling burgers, fries and franchises, not Open Kitchen.  
10:27:54 8 And that's clear from the complaint.

10:27:58 9 To be commercial speech as well, Kytch needs to  
10:28:02 10 allege that there is an economic motivation for the Field  
10:28:06 11 Brief. And that has not been alleged. There is no direct  
10:28:09 12 financial interest. Instead, all Kytch relies upon is that  
10:28:13 13 very vague allegations of indirect financial benefit. But  
10:28:17 14 that's not enough. The case law requires that Kytch has to  
10:28:21 15 allege enough to make it plausible that McDonald's spoke  
10:28:25 16 from substantially an economic motivation. Any economic  
10:28:29 17 motivation is not enough, it has to be substantial, the  
10:28:33 18 substantial economic motivation, that it was a primary  
10:28:37 19 economic motivation. And that's from the *Cornette v. Graver*  
10:28:41 20 case, 473 F. Supp 3d 437 at 461. And that's also in the  
10:28:45 21 *Arux* case, 985 F.3d 1107 at 1116 to 1117. It needs to be a  
10:28:49 22 primary economic motivation. All Kytch alleges at this time  
10:28:53 23 is that indirect financial motivation that is not a  
10:28:57 24 substantial motivation. And what they argue or what they  
10:29:01 25 allege in their complaint is that there is a repair racket

1 that McDonald's is helping Taylor maintain. And that  
2 somehow if this repair racket from Taylor is exposed,  
3 McDonald's reputation will be harmed. This is just a bare  
4 conclusion in the allegation of the complaint, no plausible  
5 facts make the theory plausible, particularly in light of  
6 the other allegations in the complaint which are that Kytch  
7 alleges McDonald's does not earn a dime from their repair  
8 racket. Taylor earns all the revenue from the repair  
9 racket. And also that Taylor is not even an exclusive  
10 supplier to McDonald's. So it makes no sense how McDonald's  
11 would be primarily substantially economically motivated to  
12 keep this repair racket when Taylor is not even an exclusive  
13 supplier to McDonald's.

14 Another theory of indirect economic motivation  
15 that Kytch puts forward for the first time in its opposition  
16 brief is that because McDonald's is in the business of  
17 selling franchisees, well, McDonald's has motivation to keep  
18 selling franchisees. But that ignores that the Field Brief  
19 was sent to existing franchisees of McDonald's. There was  
20 no sale or effort to get more franchisees, this was already  
21 a locked in relationship. And under *Chamilia v. Pandora*  
22 *Jewelry* which is 2007 WL 2781246 at \*9, it cannot be a  
23 commercial advertisement or promotion if it's a  
24 communication to existing members of a business relationship  
25 about that business relationship.

10:31:09 1 So for these reasons all based off of the facts  
10:31:12 2 of the complaint Your Honor, the Lanham Act claim fails.

10:31:15 3 I'm going to briefly address the other claims,  
10:31:19 4 particularly the UCL and FAL claims, as Kytch does not  
10:31:24 5 allege adequate remedies in the complaint. These two  
10:31:29 6 statutes only permit restitution or an injunction against  
10:31:35 7 future misconduct. Restitution is very clear under the  
10:31:39 8 California Supreme Court related to Korea Supply is that  
10:31:43 9 restitution is limited to only recovery of money or property  
10:31:47 10 in defendant's possession in which plaintiff had a vested  
10:31:51 11 interest. What Kytch claims is lost profits, lost good  
10:31:57 12 will, these are all damages, and that cannot be recovered  
10:32:01 13 under the UCL. Korea Supply is very clear on this. It  
10:32:05 14 states, and I quote, "Compensation for a loss business  
10:32:10 15 opportunity is a measure of damages and not restitution."  
10:32:13 16 And that is at 29 Cal 4 1134 at 1151.

10:32:18 17 Similarly the injunction claim also fails  
10:32:21 18 because this -- an injunction under these statutes is only  
10:32:26 19 for future misconduct. There is no allegation that there is  
10:32:30 20 any danger that McDonald's will repeat its allegedly false  
10:32:34 21 statements. Field Brief was published in November 2020.  
10:32:37 22 It's been over three years -- over two years, excuse me.

10:32:40 23 On the FAL claim, Kytch has not alleged a  
10:32:44 24 preliminary threshold issue that McDonald's acted with  
10:32:48 25 intent directly or indirectly to dispose of its properties

10:32:53 1 and services. It's required under the FAL. And that is yet  
10:32:58 2 another reason why this claim must fail.

10:33:01 3 Finally, for the tortious interference claims,  
10:33:05 4 Your Honor, there are no plausible allegations for key  
10:33:10 5 elements for each of these. As to the tortious interference  
10:33:15 6 with contact claims, there are no plausible allegations that  
10:33:17 7 McDonald's knew of Kytch's nondisclosure obligation. At  
10:33:22 8 best there is a vague reference in paragraph 33 of the  
10:33:26 9 complaint that some unknown employee reviewed the agreement  
10:33:32 10 in spring 2020, that's it. There is no discussion of  
10:33:35 11 agency, that it is going to buy McDonald's, it is not even  
10:33:39 12 clear which entity that supposed employee works for.  
10:33:43 13 McDonald's is a big corporation. They need more, they need  
10:33:46 14 to plead more to show knowledge of the contract that  
10:33:50 15 McDonald's purportedly interfered with.

10:33:53 16 As to the intentional interference with business  
10:33:58 17 expectancy tort, there is no plausible allegations that  
10:34:01 18 McDonald's was aware of Kytch's perspective economic  
10:34:04 19 relationship with customers. The paragraphs that Kytch  
10:34:10 20 relied upon, that's paragraphs 328 through 329 of the  
10:34:12 21 complaint, those at most show that Taylor knew of the  
10:34:20 22 perspective economic relationship, not McDonald's. And as  
10:34:24 23 to the negligent interference with business expectancy,  
10:34:28 24 there is first of all no cause of action for negligent  
10:34:32 25 interference with existing contract. As to any perspective

10:34:36 1 economic relationship, again, those are not identified with  
10:34:40 2 any particularity. They cite the same paragraph allegations  
10:34:44 3 in support of those as just discussed in paragraphs 328 and  
10:34:49 4 329.

10:34:49 5 And finally, there is no special relationship  
10:34:52 6 that is plausibly alleged where McDonald's would owe Kytch a  
10:34:57 7 duty here to sustain a negligent interference claim for  
10:35:01 8 perspective economic relationship. Indeed, Kytch has  
10:35:05 9 alleged that McDonald's is a competitor and there is no  
10:35:08 10 special relationship that's permitted among competitors  
10:35:11 11 under the *Stoll v. Wong* case which is 2 Cal at 4 1811 at  
10:35:14 12 1825.

10:35:14 13 If there are no further questions, Your Honor.

10:35:21 14 THE COURT: All right. Go ahead and sit down.

10:35:24 15 MS. LIU: Thank you.

10:35:27 16 THE COURT: Plaintiff. So let's go through some  
10:35:31 17 of these specifics. The agency direct financial interest,  
10:35:41 18 show me, don't just give me argument, show me in the  
10:35:45 19 complaint what you're relying on.

10:35:47 20 MR. WATKINS: So with Your Honor's permission,  
10:35:49 21 the two cases cited by McDonald's are quite different, and  
10:35:52 22 it's *Cornette* --

10:35:52 23 THE COURT: I didn't ask that. I'm asking what  
10:35:57 24 you're relying on in your complaint. Show me the provisions  
10:36:01 25 of the complaint that you're relying on.

10:36:04 1 MR. WATKINS: Yes, Your Honor. So as a  
10:36:20 2 threshold issue the key provision that we're relying on is  
10:36:25 3 the statement itself, that's paragraph 206 and 207 where --

10:36:30 4 THE COURT: Hold on. Let me get there.

10:36:38 5 So how is this -- how are these paragraphs which  
10:36:42 6 essentially just say what's in the statement evidence of an  
10:36:48 7 agency direct financial interest?

10:36:50 8 MR. WATKINS: That's why I wanted to address the  
10:36:52 9 case law first, Your Honor --

10:36:54 10 THE COURT: You don't have anything -- I want to  
10:36:56 11 see what is alleged and then you can tell me about the law.  
10:36:58 12 So if you're saying you don't have anything because you  
10:37:00 13 don't need it, that's fine. You have to start with telling  
10:37:02 14 me, do you have something that shows it or not?

10:37:04 15 MR. WATKINS: What we have that shows it is the  
10:37:06 16 representation that it's their product and the company  
10:37:08 17 publishing an advertisement about their product is presumed  
10:37:10 18 to have a financial interest --

10:37:20 19 THE COURT: Why is this an advertisement?

10:37:22 20 MR. WATKINS: Excuse me?

10:37:24 21 THE COURT: Why is this an advertisement?

10:37:26 22 MR. WATKINS: It's an advertisement because it  
10:37:28 23 identifies Open Kitchen and promotes it.

10:37:30 24 THE COURT: I'm sorry. How is it an  
10:37:32 25 advertisement for McDonald's?



10:37:34 1 MR. WATKINS: If you look at the text --

10:37:36 2 THE COURT: Open Kitchen is not a McDonald's  
10:37:38 3 product, right?

10:37:39 4 MR. WATKINS: The complaint alleges that it is a  
10:37:41 5 McDonald's product.

10:37:42 6 THE COURT: Through agency.

10:37:43 7 MR. WATKINS: Not through agency, Your Honor.

10:37:44 8 THE COURT: Where is it that you allege it's a  
10:37:47 9 McDonald's product?

10:37:52 10 MR. WATKINS: So most directly at 206 and 207 at  
10:37:57 11 the statement itself.

10:38:00 12 THE COURT: So show me in the statement, this is  
10:38:03 13 a long statement, where do you say Open Kitchen is a  
10:38:06 14 McDonald's product?

10:38:07 15 MR. WATKINS: So I'm quoting it here. "We are  
10:38:10 16 pleased to share that the McDonald's GSS equipment team in  
10:38:15 17 partnership with the NSLT equipment subteam have been  
10:38:18 18 working on a strategic connectivity solution with Taylor for  
10:38:24 19 the Shake Sunday machine." And then it describes the  
10:38:27 20 machine. And at the bottom of the statement, and now I'm on  
10:38:30 21 paragraph 20 of the complaint where you can see at the  
10:38:32 22 bottom the two contacts at McDonald's that should be  
10:38:42 23 contacted if the recipient to the false ad has any  
10:38:44 24 questions.

10:38:50 25 THE COURT: Okay.

10:39:02 1 MR. WATKINS: And then if you look at  
10:39:04 2 paragraph 29, we allege that McDonald's and Taylor still  
10:39:07 3 have not released Open Kitchen. And what I'm trying to  
10:39:10 4 point the Court towards is the allegations that demonstrate  
10:39:15 5 that it is both of their product. I'm not pointed to the  
10:39:18 6 allegations that say quote unquote, McDonald's has ownership  
10:39:23 7 of the product because we didn't allege that. What we did  
10:39:26 8 do is demonstrate that the two parties were working jointly  
10:39:29 9 together to develop the product and that they worked jointly  
10:39:32 10 together in publishing and disseminating the false ad.  
10:39:51 11 Paragraph 9 is another example. McDonald's and Taylor spent  
10:39:54 12 twenty years attempting to develop their own IOT solution  
10:40:03 13 for the broken machines. And then it says in paragraph 9,  
10:40:06 14 McDonald's and Taylor's limited IOT product called Open  
10:40:10 15 Kitchen has never launched.

10:40:12 16 If you go on to paragraph 13 we describe more  
10:40:17 17 efforts of the two companies working together to develop  
10:40:21 18 Open Kitchen, and we also included a screen shot where you  
10:40:25 19 see Taylor executives suggesting that they should bring  
10:40:30 20 Powerhouse Dynamics' name into the mix. There is obviously  
10:40:34 21 some type of corporate shell game going on between those  
10:40:37 22 three, but I want to clarify we are not alleging an agency  
10:40:40 23 relationship, we are not alleging an indirect and economic  
10:40:44 24 interest either because it's not required under the law.  
10:40:48 25 And I'm happy to continue going through the complaint

10:40:49 1 averments which must be credited at this stage that  
10:40:53 2 establish that Kytch has alleged that the two companies were  
10:40:56 3 --

10:40:56 4 THE COURT: Right. Let's move to the next one.  
10:40:58 5 They say they're not soliciting anyone to buy things, so  
10:41:03 6 it's not a commercial something.

10:41:07 7 MR. WATKINS: Your Honor, they announced the  
10:41:09 8 release date of their competing product. They say that at  
10:41:12 9 the end of Q1 2021 --

10:41:14 10 THE COURT: You're saying oh look, McDonald's  
10:41:19 11 and Kytch -- I'm sorry, McDonald's and Taylor were working  
10:41:22 12 together on this product so McDonald's is tagged with being  
10:41:26 13 a part of this product, it being partly their product, them  
10:41:31 14 involved in the product, and they announced a time when this  
10:41:34 15 product was going to be launched and the only reason they  
10:41:36 16 would do that is so that people would use it.

10:41:39 17 MR. WATKINS: Correct. And that's the nature of  
10:41:42 18 an advertisement itself, you are telling the relevant market  
10:41:46 19 here, more than 10,000 fast food restaurant operators, that  
10:41:50 20 either where Kytch's existing customers or prospective  
10:41:53 21 customers for the Kytch solution and the Open Kitchen  
10:41:57 22 product and you're encouraging them to discontinue using  
10:42:00 23 Kytch in favor of your competing product.

10:42:03 24 Now, McDonald's counsel's argument that an  
10:42:06 25 advertisement cannot be made to customers with whom you have

an existing relationship, that's just not the law. And they relied on the *Pandora* case for that proposition but it's readily distinguishable. In *Pandora* there was a competing product that *Pandora* believed was trying to sell knockoffs so *Pandora* corporate sent out a message to their distributors that said hey, if you buy any of these competitor's products then you're going to be violating the noncompete that you signed with us. That is not an ad because the persons receiving the communication were contractually obligated to avoid buying the competing product. Whereas here, that's not the case at all. And again, at the Rule 12(b)(6) stage we have to look at the allegations in the complaint. And timing and motivation matters.

The Third Circuit has explained that it takes a common sense approach to interpreting commercial speech and determining whether it's an ad. Here just two weeks before the false ads were published, Kytch was gaining incredible traction in the market after independent operators endorsed the product. And so the reason that McDonald's and Taylor came out with their false ads is to stymie that growth and to give them more time to develop their competing product. And that's alleged in the complaint and the arguments to the contrary by counsel just aren't relevant for the Court's consideration today.

10:43:37 1 And the final point that I was going to raise  
10:43:40 2 initially relates to the *Arux* citation for the requirement  
10:43:44 3 that there be a direct financial interest. That citation is  
10:43:48 4 actually from the dissent in that case. The majority  
10:43:54 5 opinion explained that there doesn't need to be a direct  
10:43:57 6 financial interest because that's just not the nature of  
10:44:01 7 commerce. Here we're hearing arguments about who is and who  
10:44:05 8 isn't getting certain sales, but this product isn't on the  
10:44:08 9 market so there aren't any sales.

10:44:09 10 As an aside, we do have a pending subpoena in  
10:44:13 11 the California state action and McDonald's has refused to  
10:44:17 12 produce their contracts and agreements with Taylor that  
10:44:21 13 would reflect the truth of their actual relationship. But  
10:44:24 14 certainly at this early stage, Kytch has alleged that it is  
10:44:31 15 McDonald's products jointly with Taylor, Kytch has alleged a  
10:44:34 16 sufficient economic motivation and the narrow construction  
10:44:37 17 that's advanced by counsel just isn't the law. I think the  
10:44:41 18 Seventh Circuit's explanation in the *Jordan* case bears  
10:44:47 19 mentioning as well as the Third Circuit's explanation in  
10:44:52 20 *Facenda* that real explains that the question was a  
10:44:54 21 substantial motivating factor in publishing the subject  
10:44:58 22 statement, was it economically motivated.

10:45:02 23 And under *Handsome Brook*, the fact that this is  
10:45:05 24 a not for profit company communicating to a potential  
10:45:10 25 customer base, then the presumption is that they did have

sufficient economic motivation. This is not a Better Business Bureau case, this is not a nonprofit case, this is not an academic journal case, this is a competitor that is driving Kytch out of the marketplace because it threatened a lucrative scheme that is alleged throughout the complaint.

And I wanted to if it's okay to transition back to the claim splitting issue, unless the Court had other questions.

THE COURT: Go ahead.

MR. WATKINS: Counsel represented that they don't anticipate arguing personal jurisdiction in the -- or challenging personal jurisdiction in the Northern District of California, but that's not sufficient. The Court does have the ability to transfer the case *sua sponte* where it might have been had and that's under Section 1404(a), but the Court must be sure about all considerations of personal jurisdiction as a prerequisite to transferring. We don't have that here and we certainly don't have it here based on the equivocations from McDonald's counsel.

Relatedly, I certainly understand the Court's concerns about conserving not just judicial resources, but also the parties' resources. However, litigating this case against McDonald's and Taylor in the Northern District of California would not necessarily be more efficient for the parties or for the federal judiciary generally simply

10:46:47 1 because we're going to have multiple cases --

10:46:49 2 THE COURT: But you guys are disagreeing on what  
10:46:52 3 California law requires. The Northern District of  
10:46:54 4 California is in a much better position to determine -- I  
10:46:58 5 mean, all of your claims you have two state claims based on  
10:47:02 6 California law, the common law claims were all briefed based  
10:47:06 7 on California law. And the applications there, the  
10:47:11 8 California courts are in a much better position to determine  
10:47:14 9 that than I am.

10:47:15 10 MR. WATKINS: So in response, Your Honor, the  
10:47:19 11 California state action is tracking ahead of this case and  
10:47:22 12 we're headed to trial in November. As the Court explained  
10:47:26 13 in her earlier comments, Judge Markman's opinion denying  
10:47:30 14 Taylor's demur does provide some guidance in terms of how  
10:47:34 15 these state court law issues will come out, but I don't  
10:47:38 16 believe that McDonald's has identified any novel issues of  
10:47:42 17 state law that require us to wait on adjudication from Judge  
10:47:46 18 Markman and that would prevent us from moving forward in a  
10:47:49 19 meaningful way --

10:47:49 20 THE COURT: What if I view these cases as all  
10:47:53 21 related and they belong in a California court, how about if  
10:47:57 22 I just stayed these cases pending the outcome of the  
10:47:59 23 California state case?

10:48:00 24 MR. WATKINS: A stay is abstention under  
10:48:04 25 *McKenna*.

10:48:05 1 THE COURT: No, I'm not talking about  
10:48:07 2 abstention, I'm talking about staying using my discretion to  
10:48:11 3 deal with my docket.

10:48:13 4 MR. WATKINS: Colorado River was a stay. It  
10:48:16 5 counts as abstention. Kytch has filed federal claims in  
10:48:20 6 this court and in *McKenna*, the Third Circuit reversed a  
10:48:24 7 trial court for determining that the stay was appropriate  
10:48:28 8 under its inherent powers and that it was not an extension  
10:48:32 9 that required analysis under Colorado River. That's black  
10:48:35 10 letter law in the Federal Circuit. It revisited the point  
10:48:39 11 in 2021 in the *Ferina* case.

10:48:42 12 THE COURT: Let me ask you this. If I stay the  
10:48:44 13 case and you appeal it and go to the Third Circuit, if the  
10:48:47 14 Third Circuit comes back and says well, you shouldn't have  
10:48:50 15 stayed it, it's going to be after those cases were -- after  
10:48:54 16 the cases probably have already been tried in California,  
10:48:58 17 right?

10:48:59 18 MR. WATKINS: The rule of law matters and we're  
10:49:01 19 urging the Court to apply controlling law. There is another  
10:49:05 20 consideration related to the Court's efficiencies concern  
10:49:09 21 that I would like to bring to your attention. If we had  
10:49:12 22 filed the federal Lanham Act claims against Taylor in the  
10:49:15 23 Alameda County action, the only way that that case could  
10:49:18 24 have stayed together is if every single defendant consented  
10:49:21 25 to removal to the Northern District of California. Had that



10:49:25 1 not happened, then we would have had piecemeal litigation  
10:49:29 2 against Tyler Gamble and TF Group in Alameda County before  
10:49:34 3 Judge Markman.

10:49:35 4 THE COURT: Tell me about the *Mohammand* case.

10:49:38 5 MR. WATKINS: The *Mohammand* case comes out the  
10:49:41 6 wrong way, Judge.

10:49:42 7 THE COURT: And you're only relying on *Walton*,  
10:49:45 8 if *Walton* says this, you can't split against cases in the  
10:49:47 9 same court, it doesn't say anything about whether you can --  
10:49:51 10 whether splitting can occur between federal and state court,  
10:49:55 11 right?

10:49:55 12 MR. WATKINS: So not exactly, Your Honor, *Walton*  
10:49:58 13 -- we're relying on the controlling law in the Third Circuit  
10:50:02 14 is *Walton* which describes the rule. *Mohammand* comes out the  
10:50:07 15 wrong way and determines that is not claim splitting.

10:50:10 16 THE COURT: Was *Mohammand*, is it still good law?

10:50:14 17 MR. WATKINS: No, Your Honor, I don't -- one  
10:50:18 18 second, please. *Mohammand* is in the Middle District of  
10:50:21 19 Florida and it was applying 11th Circuit law. There is a  
10:50:25 20 Southern District of Florida case that comes out the other  
10:50:29 21 way, but the 11th Circuit's claim splitting rules are messy,  
10:50:32 22 there is a lot of confusion on point, but whatever it is,  
10:50:36 23 it's certainly not persuasive here and it certainly doesn't  
10:50:39 24 overcome the requirements of *Walton*. There were two other  
10:50:43 25 cases mentioned. I would like to clarify this same court

10:50:43 1 confusion that seems to be occupying the arguments from  
10:50:47 2 Taylor's counsel. We're still talking about the notion of  
10:50:53 3 abstention unless the two related actions are in the same  
10:50:56 4 court. In other words, in *Hannah*, *Sparks* and *Herbert*, those  
10:51:00 5 were the three cases that counsel mentioned --

10:51:03 6 THE COURT: I get it, I know, those were  
10:51:06 7 district court to district court. I get it, and I think  
10:51:08 8 counsel made that point clear. And then when I asked where  
10:51:11 9 he had something between them, he cited to *Hannah* -- I mean  
10:51:15 10 to *Mohammand*. What I'm not understanding is I don't read  
10:51:18 11 the Third Circuit cases as saying it cannot apply. I'm  
10:51:21 12 reading them as saying when it does apply, but I'm not  
10:51:24 13 seeing anything that specifically says and this is the only  
10:51:31 14 instance where it applies.

10:51:35 15 MR. WATKINS: Well, then, let's look at the  
10:51:37 16 policy rationale. Those cases uniformly explain that the  
10:51:41 17 purpose of the claim splitting rule is to bar a plaintiff  
10:51:44 18 from circumventing adverse rulings. Typically those adverse  
10:51:49 19 rulings are motions to amend. Sometimes they're motions for  
10:51:52 20 summary judgment and sometimes they are motions to dismiss.  
10:51:55 21 And the key case relied on by Taylor is the *Moore* case. In  
10:52:00 22 that case a pro se prisoner sued to access the prison  
10:52:04 23 library. The case was dismissed and he later filed the  
10:52:08 24 exact same claim in the exact same court. That was improper  
10:52:12 25 claim splitting. Two other consideration is the remedy

10:52:16 1 that's provided in *Walton*. One of them is consolidation of  
10:52:19 2 the action. Given the federalism --

10:52:23 3 THE COURT: Are you not circumventing the  
10:52:26 4 decision in California on your motion to amend?

10:52:29 5 MR. WATKINS: We won that motion, Your Honor.

10:52:31 6 THE COURT: I know.

10:52:32 7 MR. WATKINS: The improper circumvention -- so  
10:52:36 8 yes, I would --

10:52:37 9 THE COURT: I get it, this whole thing, there is  
10:52:39 10 something about it that just seems off to me that there is  
10:52:41 11 some real forum shopping going on and I get it that  
10:52:51 12 plaintiff gets to choose its forum, but there is something  
10:52:54 13 that just seems off here where the defendants tell you what  
10:53:00 14 they're going to do and you're like okay, let's just move it  
10:53:03 15 over to Delaware. And we get to do what we want to do even  
10:53:09 16 though we are creating huge inefficiencies for the Court.

10:53:15 17 MR. WATKINS: So just as a reminder, we would be  
10:53:19 18 dealing with three courts again, right? Potentially the  
10:53:23 19 District of Delaware against McDonald's. We'll see how that  
10:53:26 20 jurisdictional fight goes if it exist. The Northern  
10:53:29 21 District of California against Taylor with a Lanham Act  
10:53:32 22 claim there. And the state court action against Tyler  
10:53:36 23 Gamble and the TF Group. I certainly understand the Court's  
10:53:40 24 concerns about judicial economy, but Kytch is the master of  
10:53:44 25 its complaint and there is not a single citation to

10:53:48 1       precedented in this circuit or otherwise where suing a  
10:53:51 2       defendant where they're incorporated is improper forum  
10:53:55 3       shopping. This is a home game for the --

10:53:57 4               THE COURT: It is improper forum shopping  
10:53:59 5       because you had a forum to bring the case. You had the  
10:54:02 6       ability to bring the case. And you said oh, wait, I don't  
10:54:06 7       want to be in the Northern District of California, I want to  
10:54:09 8       be someplace else, so I'm going to split off a claim that is  
10:54:13 9       -- has an identical set of facts underlying it and bring it  
10:54:16 10       out to Delaware. That's where the forum shopping aspect  
10:54:21 11       comes in. It's not -- I mean, you could have sued Taylor  
10:54:26 12       originally, maybe here, I don't know, but it's the way that  
10:54:31 13       you have done this to break off the claim and then say oh,  
10:54:36 14       it's all in Delaware now, when it's just because you were --  
10:54:41 15       you were dealing with a forum aspect out there.

10:54:47 16               MR. WATKINS: Your Honor, Kytch is almost  
10:54:48 17       bankrupt. We're fighting this case against defendants --

10:54:51 18               THE COURT: Well, if you're almost bankrupt I  
10:54:53 19       don't know why you want to be following -- having lawyers  
10:54:56 20       flying out to Delaware for everything. We have rules that  
10:54:59 21       you have to bring people to Delaware for depositions.

10:55:02 22               MR. WATKINS: We're happy to show up in Delaware  
10:55:04 23       for anything that the Court requires. Again, I understand  
10:55:07 24       the Court's concern, but we were presented with the  
10:55:09 25       difficult choice, that was three litigations versus two, we

10:55:14 1 picked two. There is no principle of law that bars --

10:55:16 2 THE COURT: You didn't pick two, you still have  
10:55:19 3 three.

10:55:19 4 MR. WATKINS: What's the third, Your Honor?

10:55:20 5 THE COURT: You have Alameda, you have  
10:55:22 6 McDonald's, and you have Taylor out here. You have not  
10:55:26 7 consolidated anything, right, so you have three.

10:55:29 8 MR. WATKINS: In three different courts, Your  
10:55:32 9 Honor. And we're hopeful that consolidation is granted  
10:55:34 10 here. And listen, I certainly understand your concern about  
10:55:36 11 the economics and there are tools in your arsenal to make  
10:55:40 12 sure that we proceed in a way that is consistent with those  
10:55:42 13 values. We can have streamline discovery, et cetera, but  
10:55:44 14 before the Court can issue a stay, before the Court can  
10:55:50 15 abstain, the Court must satisfy the stringent requirements  
10:55:52 16 under Colorado River.

10:56:00 17 THE COURT: Tell me exactly what those  
10:56:02 18 requirements are.

10:56:02 19 MR. WATKINS: The threshold question is whether  
10:56:04 20 the two litigations are parallel. And Taylor spends a lot  
10:56:06 21 of time identifying the relevant facts that have overlap --

10:56:10 22 THE COURT: Don't argue them, tell me what the  
10:56:12 23 considerations are and --

10:56:14 24 MR. WATKINS: Yes, Your Honor. The threshold  
10:56:16 25 question is whether the two proceedings are parallel. Do

10:56:22 1 you want me to address them one at a time or go through all  
10:56:25 2 of them?

10:56:26 3 THE COURT: Tell me all of the things and then  
10:56:28 4 we can address them.

10:56:28 5 MR. WATKINS: The first factor and most  
10:56:30 6 important factor is a strongly articulated congressional  
10:56:34 7 policy against piecemeal litigation that applies in this  
10:56:39 8 specific context. So that's the first factor.

10:56:44 9 THE COURT: Okay.

10:56:45 10 MR. WATKINS: The second is the order in which  
10:56:47 11 the tribunal obtained and exercised jurisdiction.

10:56:54 12 THE COURT: Okay.

10:56:54 13 MR. WATKINS: The third is assertion of  
10:56:56 14 jurisdiction over *res*.

10:57:00 15 THE COURT: Okay.

10:57:04 16 MR. WATKINS: The fourth is inconvenience of a  
10:57:06 17 federal forum.

10:57:13 18 THE COURT: Okay.

10:57:14 19 MR. WATKINS: The fifth is whether federal law  
10:57:18 20 governs the federal case. And the sixth is adequacy of the  
10:57:32 21 state forum.

10:57:32 22 THE COURT: Okay.

10:57:32 23 MR. WATKINS: May I address them in turn, Your  
10:57:40 24 Honor?

10:57:40 25 THE COURT: Sure.

10:57:41 1 MR. WATKINS: The cases are not parallel. The  
10:57:42 2 question isn't whether there is overlap between the factual  
10:57:49 3 assumption. The question is whether Kytch can obtain full  
10:57:52 4 relief in the California state case. As an obvious matter  
10:57:56 5 the California court is limited in its injunctive power and  
10:58:00 6 can only issue an injunction within the --

10:58:05 7 THE COURT: You were happy to bring the case out  
10:58:06 8 there until you found out that you were going to wind up in  
10:58:09 9 federal court; right?

10:58:11 10 MR. WATKINS: I wouldn't say happy, Your Honor.  
10:58:13 11 Kytch did not volunteer for any of this, and we would --

10:58:18 12 THE COURT: You asked for permission to add a  
10:58:21 13 Lanham Act claim in the California state court; right?

10:58:24 14 MR. WATKINS: Yes, Judge.

10:58:27 15 THE COURT: You didn't say oh, hey, we're going  
10:58:31 16 to bring this one separately in the Northern District;  
10:58:34 17 right?

10:58:35 18 MR. WATKINS: Correct.

10:58:38 19 THE COURT: So you were happy to have the state  
10:58:41 20 court deal with it until it became clear that there was  
10:58:45 21 going to be a strategic disadvantage, right?

10:58:48 22 MR. WATKINS: It's a different case, Your Honor.

10:58:51 23 THE COURT: You were happy to have the state  
10:58:54 24 court deal with it until you found out that they were going  
10:58:57 25 to remove it. Right? You just told me earlier the reason

10:59:01 1 that you didn't go forward with it was because they told you  
10:59:05 2 they were going to remove it. I'm just asking to confirm  
10:59:09 3 what you told me earlier.

10:59:10 4 MR. WATKINS: Your Honor, we did not assert the  
10:59:14 5 federal Lanham Act claim in Alameda County. The purpose of  
10:59:18 6 that was to avoid removal to the Northern District of  
10:59:21 7 California.

10:59:22 8 THE COURT: So originally you wanted to have  
10:59:24 9 that claim included in the case in Alameda County, right?

10:59:27 10 MR. WATKINS: Yes, Your Honor.

10:59:28 11 THE COURT: So you were happy to have the state  
10:59:30 12 court handle that case when you thought that it would be  
10:59:34 13 handled all together, the whole litigation in Alameda  
10:59:39 14 County, right?

10:59:39 15 MR. WATKINS: We were prepared to proceed under  
10:59:42 16 those circumstances, Your Honor, but in the parallel  
10:59:44 17 question under Colorado River, the plaintiff's subjective  
10:59:48 18 satisfaction isn't the question, the question is whether the  
10:59:51 19 state is an appropriate remedy for all of the issues in the  
10:59:54 20 case. So we believe that the parallel factor isn't  
11:00:00 21 satisfied.

11:00:02 22 THE COURT: You have some other better factors I  
11:00:03 23 think than that one.

11:00:05 24 MR. WATKINS: Yes, Your Honor. In the Third  
11:00:07 25 Circuit -- and this was the only factor briefed by Taylor



11:00:10 1 because it is dispositive. If the Court is leaning towards  
11:00:14 2 abstention which is dismissal without prejudice or a stay,  
11:00:18 3 then it must identify a strongly articulated congressional  
11:00:23 4 policy against piecemeal litigation that applies to these  
11:00:28 5 specific facts. In Colorado River, the strong congressional  
11:00:33 6 policy was the McCarran Amendment and relates to the state's  
11:00:39 7 right to regulate their own natural resources. Here,  
11:00:42 8 Congress has created an unfair competition statute that  
11:00:46 9 gives Kytch the right to file this in federal court. And  
11:00:49 10 that --

11:00:51 11 THE COURT: Isn't it interesting that Congress  
11:00:52 12 also allows this to have -- allows the statute to be  
11:00:54 13 litigated in state courts?

11:00:57 14 MR. WATKINS: Your Honor, it's interesting but  
11:00:59 15 it certainly doesn't advance a strong congressional policy  
11:01:01 16 that the case should be adjudicated in state court to the  
11:01:03 17 exclusion of federal court.

11:01:05 18 THE COURT: What do I need to make it a strong  
11:01:10 19 policy, Congress has to say that we strongly say that you  
11:01:12 20 can file it in state court? I mean, most federal statutes  
11:01:14 21 you hear in federal court, so it's kind of interesting to me  
11:01:16 22 that we have this statute that's like hey, you can file it  
11:01:18 23 in state court, you can file it in federal court.

11:01:20 24 MR. WATKINS: So at best, at best it's a wash,  
11:01:22 25 but the type --

11:01:32 1 THE COURT: What do I need for strongness?

11:01:35 2 MR. WATKINS: The real question is specifically  
11:01:37 3 applied to these facts because to the extent that any cause  
11:01:41 4 of action that Congress grants, federal jurisdiction and  
11:01:46 5 concurrent state jurisdiction, at best that means that it  
11:01:50 6 can be satisfied in either court, but if you look at the  
11:01:56 7 securities context there are some specific carve outs from  
11:01:59 8 the declaratory judgment act where Congress can explicitly  
11:02:03 9 say this type of dispute is better resolved in the state  
11:02:06 10 court. They did not do that here and the only attempt that  
11:02:09 11 Taylor makes to identify a strongly articulated federal  
11:02:14 12 policy is an appellant California court that generally says  
11:02:17 13 that California has some of the strongest consumer  
11:02:20 14 protection statutes in the country. The California  
11:02:23 15 intermediate appellant court isn't Congress and there is no  
11:02:26 16 reason whatsoever that indicates that Congress would prefer  
11:02:29 17 that litigants file Lanham Act claims in state court to the  
11:02:32 18 exclusion of federal court. If anything, it's the opposite.  
11:02:35 19 And there is not a single case where abstention was found on  
11:02:40 20 those grounds, at least none that I have been able to find  
11:02:42 21 and none that have been cited by defendant.

11:02:44 22 Would you like to move on to the next?

11:02:50 23 Your Honor, actually, you granted a stay --  
11:02:52 24 sorry, I don't mean to interrupt you.

11:02:54 25 THE COURT: Go ahead.

11:02:58 1 MR. WATKINS: You granted a stay in a situation  
11:03:01 2 that I think really identifies where such a course of action  
11:03:09 3 makes sense. It was an enforcement action, I believe there  
11:03:12 4 was a Delaware state issue, state subpoena that had been  
11:03:16 5 issued and in a parallel state proceeding, the parties were  
11:03:19 6 litigating the validity of that state subpoena. You stayed  
11:03:23 7 the case and explained that the state court's decision in  
11:03:28 8 that subpoena dispute would ultimately resolve all of the  
11:03:32 9 issues that would potentially be before you. I think that's  
11:03:36 10 a great example of deference to the state court in a way  
11:03:40 11 that Congress has articulated that makes sense, but here we  
11:03:44 12 don't have any of those concerns, we're not waiting on any  
11:03:48 13 kind of ruling from the appellant court in California or  
11:03:52 14 otherwise to clarify any of these issues.

11:03:56 15 Moving on to the next factor, the order in which  
11:03:59 16 the tribunals obtained and exercised jurisdiction. We're  
11:04:03 17 very close in time on that factor, and I think it's probably  
11:04:07 18 a wash. The California court assumed jurisdiction over --  
11:04:11 19 by the way, Your Honor, for this inquiry's purpose we're  
11:04:15 20 talking about the false advertising law claim specifically  
11:04:19 21 and not the state court action in general. And so the false  
11:04:23 22 advertising law claim was filed, I believe it was less than  
11:04:27 23 a week before this lawsuit, and so those would be considered  
11:04:31 24 essentially contemporaneous.

11:04:35 25 The third factor isn't present because there is

no res here, there is no property, and that's another example where when a state is adjudicating property rights over property within its borders, federal abstention makes a lot more sense, but that's not present here.

The fourth is inconvenience of the federal forum. That weighs against abstention for the reasons I stated before. This is a home game for the defendants. Whether federal law governs the federal case, that weighs against abstention because the only claim before this Court against Taylor is a federal Lanham Act claim being litigated in the federal forum.

We talked a little bit about the final factor which is adequacy of the state forum. Again, the plaintiff's subjective satisfaction isn't really the question, it's whether the state court forms a sufficient vehicle to resolve the entire dispute. This sixth factor weighs against abstention for a few reasons. The California forum may be inadequate because Kytch could be deprived of its federal right to a jury under California's equity first rule. Taylor has been actively advocating to deprive Kytch of its right to a jury and that has not yet been litigated before Judge Markman. And we already talked a little bit about the inadequacy of remedy, given not only that California could -- California's injunctive relief would be limited to that state's borders, but the false advertising

11:06:11 1 law claim does not allow Kytch to recover compensatory  
11:06:16 2 damages. And again, these factors are viewed very  
11:06:23 3 suspiciously and carefully. The Court should exercise  
11:06:30 4 abstention in a scrooge-like fashion in order to honor its  
11:06:34 5 obligation that is virtually unflagging to hear federal  
11:06:38 6 court cases that are appropriately before it.

11:06:45 7 And Judge, in the Ferina case, the plaintiff was  
11:06:48 8 pro se and had some problems navigating these complex  
11:06:52 9 issues. We're dealing with pretty substantive and  
11:06:55 10 complicated federal court questions. I brought my fed  
11:07:00 11 courts textbook and this really does seem like a question  
11:07:02 12 from fed courts. And if the Court does have additional  
11:07:05 13 questions, I'm happy to answer them, but the amicus brief  
11:07:10 14 filed in that case really lays out these factors and  
11:07:13 15 explains in the Third Circuit as required under *Ryan v.*  
11:07:16 16 *Johnson*, if the reason for granting abstention is to avoid  
11:07:20 17 piecemeal litigation, there must be a strong congressional  
11:07:23 18 policy that is articulated in this specific context that  
11:07:26 19 demonstrates that Congress wants the dispute to be resolved  
11:07:30 20 in the state court to the exclusion of the federal court.  
11:07:32 21 We don't have that here.

11:07:40 22 THE COURT: Okay. So I guess I want to hear  
11:07:42 23 from Taylor. I'm not worried about abstention, but on the  
11:07:50 24 claim splitting, you heard his response, Northern got it  
11:07:52 25 wrong, Southern District said something different and

11:08:01 1       apparently according to him the law in the 11th Circuit on  
11:08:04 2       claim splitting is different than the law in the Third  
11:08:07 3       Circuit, so why is that not correct?

11:08:10 4               MR. MICHELETTI: Your Honor, pretty much nothing  
11:08:12 5       that my friend from Kytch said about claim splitting is  
11:08:17 6       accurate. Everything I said in my opening was accurate,  
11:08:20 7       Your Honor, just to go through it as best I can piecemeal  
11:08:23 8       here. In reference to Walter, or excuse me, *Walton* and  
11:08:30 9       *McKenna*, there is nothing in those cases as the court  
11:08:31 10       acknowledged or indicated that says claim splitting cannot  
11:08:37 11       apply when it's between two different courts. There is  
11:08:40 12       nothing in those cases that say that. Those are limited  
11:08:43 13       factual circumstances in those cases back-to-back filing in  
11:08:47 14       the same court, but that doesn't limit the doctrine itself.  
11:08:51 15       And I say that because -- and that's also true when it comes  
11:08:53 16       to the cases that I referenced earlier about parallel  
11:09:00 17       federal proceedings have claim splitting issues as well, and  
11:09:03 18       in the doctrine applying there.

11:09:07 19               *Hanna* is another case that was referenced which  
11:09:09 20       specifically cites to *Walton* and *McKenna* when applying claim  
11:09:14 21       splitting to cases pending in two separate federal courts.  
11:09:17 22       Right? So again, there is nothing about *Walton* and *McKenna*  
11:09:22 23       that says that it's limited in the Third Circuit only to one  
11:09:25 24       court situations. So that's part one.

11:09:28 25               The *Mohammand* case, I'm looking at it, I'll give

11:09:33 1 you the cite, Your Honor --

11:09:33 2 THE COURT: I have it. I have it pulled up.

11:09:36 3 The *Mohammand* case is very clear, but what I understood is  
11:09:39 4 one, it was wrong, but two, something to the effect that  
11:09:43 5 well, the law in the Third Circuit on claim splitting is all  
11:09:48 6 up in the air or it's different, and I do see that they have  
11:09:53 7 two factors that go into -- they look at in claim splitting,  
11:09:59 8 in the Third Circuit there is three. Why is it not looking  
11:10:03 9 at claim splitting in a different way than the Third  
11:10:07 10 Circuit?

11:10:07 11 MR. MICHELETTI: The two elements are basically  
11:10:09 12 the same as the three elements in the Third Circuit, Your  
11:10:11 13 Honor, that's the bottom line. Again, the most powerful  
11:10:14 14 element of any claim splitting analysis in any forum is  
11:10:18 15 whether or not there are claims arising out of the same  
11:10:21 16 nucleus of offered facts, the same facts and circumstances.  
11:10:24 17 And the court applied the two tests, element tests in  
11:10:28 18 *Mohammand* that's accurate, but it's not all dissimilar and  
11:10:32 19 quite frankly analogous to our three-part test -- and it's  
11:10:36 20 good law, Your Honor.

11:10:37 21 THE COURT: They quote from the 10th and the  
11:10:39 22 11th Circuit and say the rule against claim splitting  
11:10:42 23 requires the plaintiff to assert all of its causes of action  
11:10:45 24 arising from a common set of facts in one lawsuit. Is that  
11:10:48 25 the law in the Third Circuit?

11:10:51 1 MR. MICHELETTI: That's my understanding, that's  
11:10:53 2 how the doctrine works.

11:10:54 3 THE COURT: By spreading claims around multiple  
11:10:57 4 lawsuits in other courts or before other judges, parties  
11:11:00 5 waste scarce judicial resource and undermine the efficient  
11:11:04 6 and comprehensive in judicial cases. Is that consistent  
11:11:08 7 with the law in the Third Circuit?

11:11:10 8 MR. MICHELETTI: Right, that's the policy under  
11:11:12 9 the claim splitting doctrine, Your Honor, anywhere. It's to  
11:11:14 10 avoid piecemeal litigation and to require a plaintiff that's  
11:11:16 11 got a case with all the same operative facts to file their  
11:11:18 12 claims in that case. And the reason for not doing it here,  
11:11:20 13 they asked to do it, I just want to point out again, Your  
11:11:22 14 Honor I think understands this, but they requested leave to  
11:11:24 15 file the Lanham Act claim that we have here before the Court  
11:11:26 16 against Taylor in the state court action in California and  
11:11:28 17 the piece that's missing on that is the court granted it.

11:11:29 18 THE COURT: I know. I asked him that and he  
11:11:31 19 said well, we told the court they didn't have to. And I  
11:11:33 20 said didn't you waste the court's by doing that and he  
11:11:35 21 granted it and when you filed the Amended Complaint, it  
11:11:37 22 didn't include it.

11:11:39 23 MR. MICHELETTI: Understood, Your Honor.

11:12:01 24 THE COURT: His response, which I guess is  
11:12:03 25 accurate, which is look, we told the judge he didn't have



11:12:05 1 to, it's not our fault that he did it.

11:12:07 2 MR. MICHELETTI: I think practically speaking I  
11:12:09 3 think they just took the claim out of the complaint that  
11:12:12 4 they filed out in California and dropped it in here. That's  
11:12:16 5 exactly the claim splitting that the claim splitting  
11:12:20 6 doctrine is supposed to prevent, but it's also forum  
11:12:23 7 shopping. And that's also a side benefit and the reason for  
11:12:27 8 the claim splitting doctrine and how it applies, right, it's  
11:12:30 9 to prevent that. You're basically hedging your bets between  
11:12:31 10 two different courts on the same facts.

11:12:35 11 We know that the California case is going to  
11:12:37 12 trial at the end of November, right, shortly after  
11:12:40 13 Thanksgiving. All of the same facts and issues by their own  
11:12:41 14 admission underlying the state false advertising claim there  
11:12:50 15 are the same facts and issues that are here under the Lanham  
11:12:51 16 Act claim. So in short order in California there will be a  
11:12:57 17 resolution one way or the other, right, so that could be --  
11:13:00 18 on the same theory that *res judicata* is sort of associated  
11:13:04 19 with the claim splitting doctrine, *res judicata* could apply  
11:13:09 20 to a final judgement which could be brought here to either  
11:13:12 21 dismiss or be addressed by the court on the same claim. And  
11:13:16 22 it's one of the reasons why the claim splitting doctrine  
11:13:19 23 exist. *Res judicata* is there for the end game, claim  
11:13:24 24 splitting is to cut off the piecemeal litigation at the  
11:13:27 25 outset. But all of this at their own request was supposed

11:13:29 1 to be happening in the California state court until they  
11:13:33 2 decides they wanted to forum shop. And so for that reason  
11:13:35 3 we think the claim splitting doctrine and all the other  
11:13:38 4 reasons I said, *Mohammand* is good law, all the other cases I  
11:13:42 5 cited are all good law on this issue, and for all of those  
11:13:45 6 reasons, the case can be dismissed on the claim splitting.

11:13:49 7 Let me turn to the stay argument that they made.  
11:13:51 8 They tried to undercut the Court's inherent ability and  
11:13:54 9 discretion to stay cases in deference to state action.

11:13:58 10 THE COURT: They didn't sort of.

11:14:00 11 MR. MICHELETTI: They pretty much took it  
11:14:02 12 head-on, Your Honor.

11:14:04 13 THE COURT: They said you have to deal with our  
11:14:06 14 case whether you want to or not.

11:14:08 15 MR. MICHELETTI: I think if the Court looks at  
11:14:10 16 *Calamos Asset Management, First American Title Insurance*  
11:14:12 17 *Company* and the *Univar* case, every single one of those cases  
11:14:14 18 is the district court deferring to state court, right, under  
11:14:16 19 its own discretion, not *Colorado River*, not abstention or  
11:14:18 20 *Colorado River* stay, but under the Court's own discretion.  
11:14:20 21 The Court has that ability and as that power to do it. It's  
11:14:22 22 something that frequently used to come up in mergers and  
11:14:24 23 acquisitions matters where you would have a state court  
11:14:26 24 action in Delaware and you have a federal court action  
11:14:28 25 somewhere else, and it comes up even now in other

11:14:42 1 circumstances as well. It's not outside the Court's  
11:14:45 2 discretion. The Court has the discretion to stay the case  
11:14:48 3 and it could end there, too. The case could stop there as  
11:14:51 4 well based on that stay. We think, though, that the case  
11:14:54 5 should be dismissed --

11:14:55 6 THE COURT: So the argument made by the  
11:14:56 7 plaintiff was well, in Colorado River the court said hey,  
11:15:01 8 I'm doing it in my discretion and the appellant court said  
11:15:05 9 yeah, no, you can't do that, you have to follow this other,  
11:15:10 10 you know, Colorado River protocol.

11:15:11 11 MR. MICHELETTI: I don't think that's well  
11:15:12 12 stated, Your Honor, and I think it's played out by all these  
11:15:13 13 subsequent cases I have identified where the federal court  
11:15:14 14 is deferring to the state court within its own discretion,  
11:15:15 15 staying, not dismissing, staying. And Your Honor, again,  
11:15:16 16 it's for a very legitimate common sense reason because  
11:15:17 17 again, the same underlying facts are going to be fixed after  
11:15:18 18 trial in the California state action at the end of this  
11:15:19 19 year, or presumably after the trial towards the end of this  
11:15:20 20 year. Right? And so the idea that we should have two  
11:15:21 21 parallel actions on the same facts and circumstances, a  
11:15:22 22 point that they admit readily in their answering brief, the  
11:15:23 23 same facts and circumstances apply in both cases warrants in  
11:15:24 24 favor of a stay. So that there is not two piecemeal pieces  
11:16:02 25 of litigation moving forward parallel where you could have

1 inconsistent judgements. All those are reasons to stay,  
2 Your Honor.

3 Now, before I get to the Colorado River stay,  
4 Your Honor, I don't know if you want me to go through the  
5 various points. We didn't advocate for a Colorado River  
6 stay or abstention dismissal in our papers. We would be  
7 happy to brief up the points if Your Honor wants something  
8 from us in writing on it.

9 THE COURT: Nope, I don't want anything more in  
10 writing. You guys have given me plenty. And it's not like  
11 you didn't know that this was an issue. They raised it all  
12 over there.

13 MR. MICHELETTI: I think it's something that  
14 they raised. I don't think it's dispositive on the Court's  
15 discretion to stay, that was our argument and we're sticking  
16 with that argument, Your Honor. But if you go through the  
17 Colorado River elements quickly, I'll do it quickly, Your  
18 Honor. Again, I didn't have the benefit of briefing these,  
19 and the court doesn't have the benefit of that in writing  
20 from us, but I'll just point out the proceedings are clearly  
21 parallel, they involve the same facts, same evidence, they  
22 admitted as much by trying to effectively argue that the  
23 Lanham Act should be taking place in the California state  
24 court action. Right? They basically alleged in the motion  
25 for leave to amend that it was parallel, all rising from the

11:17:23 1 same series of events. That one is clearly not in their  
11:17:27 2 favor. In terms of the policy against piecemeal litigation,  
11:17:30 3 I think I have beaten a dead horse on that issue, but that  
11:17:34 4 clearly is what is occurring here. That's what's unfolding  
11:17:37 5 here.

11:17:37 6 THE COURT: But that's not specific to this  
11:17:39 7 case, that's a policy in all cases.

11:17:43 8 MR. MICHELETTI: No, I think that's true, I  
11:17:45 9 think that's true, but there clearly has been -- our  
11:17:48 10 argument here, Your Honor, and I think based on the unique  
11:17:51 11 circumstances of the request to add a federal act claim in  
11:17:54 12 the state court and the state court said yes, and they  
11:17:58 13 decided on their own volition to forum shop for reasons to  
11:18:04 14 file that claim here in state court, that's effectively I  
11:18:06 15 think the definition of piecemeal litigation. But, you  
11:18:09 16 know, the federal forum is not exclusive for Lanham Act  
11:18:15 17 claims, right? So I think it sort of all fits together and  
11:18:18 18 I think this one weighs in our favor as well in terms of  
11:18:21 19 piecemeal litigation.

11:18:23 20 In terms of jurisdiction, California was  
11:18:27 21 obviously filed first. It's well ahead. The idea that  
11:18:30 22 under the way that my friend at Kytch tried to sort of slice  
11:18:33 23 and dice this one seemingly trying to say it's like in  
11:18:36 24 equipoise or something like that, it doesn't seem to make  
11:18:40 25 sense at all. That one weighs in our favor as well. The

11:18:43 1 assertion of jurisdiction over res, it's not an issue here.

11:18:47 2 Inconvenience of a federal forum, yes, Taylor is  
11:18:54 3 a Delaware company and it's incorporated here, but its  
11:18:58 4 operations are in California. We admitted that at the  
11:19:02 5 outset of the hearing, Your Honor, concerning personal  
11:19:04 6 jurisdiction, so California has jurisdiction. That's where  
11:19:07 7 our people are located. It would be better -- any forum  
11:19:11 8 with convenience here, it would be California for Taylor as  
11:19:13 9 opposed to Delaware where it's just incorporated.

11:19:16 10 And in terms of does federal law govern, yes,  
11:19:21 11 but again, the state court can consider it. I feel like  
11:19:26 12 that one at most is in equipoise. The federal legislature  
11:19:28 13 didn't limit the Lanham Act claim to be filed exclusively in  
11:19:32 14 federal court. And, in fact, the state court in California  
11:19:34 15 accepted it as part of an amended pleading that Kytch asked  
11:19:37 16 for before they decided to forum shop.

11:19:41 17 In terms of the adequacy of the state forum, I  
11:19:43 18 don't see how they can stand in front of Your Honor and  
11:19:45 19 suggest that the California state court was inadequate.  
11:19:48 20 They asked to have it be part of their amended pleading in  
11:19:52 21 California and the court said yes, so certainly they seemed  
11:19:55 22 to have thought that it was adequate. And I apologize, my  
11:20:00 23 apologies, I misspoke, I said Taylor is in California,  
11:20:03 24 Taylor is actually in Illinois, but the location that's at  
11:20:06 25 issue here with the equipment is in California. I

11:20:07 1 apologize, their operations, the witnesses are there, et  
11:20:11 2 cetera, so that's what makes it more convenient.

11:20:15 3 MR. TABAIE: Your Honor, to be clear, our point  
11:20:16 4 is the evidence and the witnesses will already be in  
11:20:18 5 California for the state court action. The equipment is in  
11:20:21 6 -- there is issues in Georgia, Illinois, all over the place  
11:20:25 7 in the country.

11:20:28 8 MR. MICHELETTI: And then finally, Your Honor,  
11:20:30 9 on the substance of the Taylor act claim against Taylor --  
11:20:31 10 excuse me, the Lanham Act claim against Taylor, I'm content  
11:20:31 11 to rest on the papers. I feel like I have spoken enough. I  
11:20:40 12 think the Court has the gist of our arguments, and so unless  
11:20:41 13 you have any other questions for me, I'll stand down at the  
11:20:41 14 moment.

11:20:41 15 THE COURT: Okay.

11:20:41 16 MR. MICHELETTI: Thank you, Your Honor.

11:20:41 17 THE COURT: Thank you.

11:20:54 18 MS. LUI: Your Honor, can McDonald's briefly  
11:20:54 19 address a couple of points from Kytch's argument?

11:21:01 20 THE COURT: Yes. Just give me one second.

11:21:02 21 Go ahead.

11:21:12 22 MS. LUI: Thank you, Your Honor. So I first  
11:21:12 23 wanted to start with the Arux case. Kytch has conflated two  
11:21:22 24 of the factors in its analysis of the Arux case. There is  
11:21:22 25 one, a specific element under the *Gordon & Breach* test as to

11:21:32 1 whether the speech is advocating consumers purchase  
11:21:38 2 defendant's product. The majority in *Arux* was very clear  
11:21:43 3 that it has to show either agency or a direct financial  
11:21:47 4 impact. And it adopted the dissent well taken analysis that  
11:21:52 5 these two requirements need to be shown, and the majority  
11:21:57 6 remanded that specific factor back to the district court for  
11:22:01 7 consideration because the district court had not looked into  
11:22:03 8 it.

11:22:04 9 Separately there is a commercial speech element  
11:22:07 10 that looks at economic motivation. And there, the analysis  
11:22:13 11 has to be as to whether the speaker speaks from economic  
11:22:19 12 motivation. Those two items were conflated in *Kytch's*  
11:22:21 13 argument. It's clear from the *Arux* case that to make a  
11:22:26 14 product defendant's own product when you are not a  
11:22:29 15 manufacturer or seller of that product, you need to show --

11:22:32 16 THE COURT: What if they've alleged you're a  
11:22:35 17 co-developer?

11:22:36 18 MS. LUI: There needs to be more Your Honor,  
11:22:38 19 under *Arux*, agency or direct financial impact. There is no  
11:22:42 20 -- the specific allegations that *Kytch* pointed out such as  
11:22:47 21 paragraphs 9 and 29, all they say is --

11:22:49 22 THE COURT: They pointed out the actual content  
11:22:52 23 of the thing that said we are developing it in partnership  
11:22:57 24 with Taylor and, you know, it's this great thing. So why  
11:23:02 25 isn't that enough to at least get you to you're doing it



11:23:07 1 together, you're encouraging people presumably for financial  
11:23:12 2 motive to engage with this product?

11:23:16 3 MS. LUI: Your Honor, as to development, the  
11:23:20 4 context here and context does matter in these Lanham Act  
11:23:24 5 cases, is that McDonald's is a franchisor, it works with  
11:23:28 6 particular suppliers to ensure that the equipment is  
11:23:32 7 suitable to McDonald's restaurants' needs. That is no  
11:23:36 8 different than my working with my architect to plan my house  
11:23:41 9 correctly for my needs.

11:23:43 10 THE COURT: And I get it and you might be right,  
11:23:47 11 but you're making factual representations to me that are not  
11:23:50 12 part of the record. And while that might be great for a  
11:23:53 13 summary judgment, I don't know what I'm supposed to do with  
11:23:57 14 that on a motion to dismiss.

11:23:58 15 MS. LUI: Again, it goes back to the *Arux* test  
11:24:02 16 and the tests related to that. There are no allegations of  
11:24:04 17 any direct financial impact that McDonald's will obtain from  
11:24:08 18 the sale of Open Kitchen. There is not one dime that  
11:24:12 19 McDonald's earned. There is nothing in the complaint that  
11:24:14 20 alleges that. There is nothing in the complaint that  
11:24:16 21 alleges that McDonald's is the manufacturer or the seller.  
11:24:18 22 Simply stating that working together or developing together  
11:24:22 23 for a solution, that is not enough under the *Arux* case and  
11:24:26 24 under *Twombly Iqbal* as well, there needs to be well-pleaded  
11:24:30 25 facts to make it plausible. That's not plausible at this

11:24:37 1 time particularly when under paragraph 929 and the like,  
11:24:41 2 they are conflating simply McDonald's and Taylor together to  
11:24:45 3 argue that it is an Open Kitchen product. And that's not  
11:24:49 4 permitted under the law under the *Frompovicz v. Niagara* case  
11:24:54 5 that we cite as well as the *Bret Binder v. Weststar* case.

11:24:58 6 THE COURT: You need to wrap this up because you  
11:25:01 7 were only supposed to be twenty-five minutes and we're now  
11:25:04 8 going on ninety.

11:25:05 9 MS. LUI: Thank you, Your Honor.

11:25:06 10 One quick point I would like to make related to  
11:25:08 11 the economic financial motivation is that Kytch cannot  
11:25:13 12 ignore that throughout the complaint, their allegations that  
11:25:18 13 it's Taylor and PHD's product, that's paragraphs 117, 123,  
11:25:24 14 126, 130, 132, 142 to 143, 155 to 156, 230 to 237 and 248.  
11:25:36 15 Those all show that it is an Open Kitchen -- Open Kitchen is  
11:25:40 16 a Taylor and Powerhouse Dynamic product.

11:25:43 17 Thank you, Your Honor.

11:25:44 18 THE COURT: All right. Thank you. So I need to  
11:25:47 19 go back and do a little bit of research. So I'm going to  
11:25:50 20 ask you guys to come back at 3:30 and I'll let you know  
11:25:52 21 where we are and whether I can rule on these or we need to  
11:25:52 22 do some more work on our side.

11:26:02 23 COURT CLERK: All rise.

11:26:03 24 (A brief recess was taken.)

15:50:52 25 THE COURT: Please be seated. Thank you for

15:50:59 1 your patience.

15:51:01 2 Thank you for the arguments today. They were  
15:51:02 3 very good and very helpful. First let's address the Taylor  
15:51:06 4 motion. Taylor moves to dismiss the complaint, arguing that  
15:51:09 5 the assertion here of the false advertising claim under the  
15:51:12 6 Lanham Act constitutes claim splitting. Specifically,  
15:51:15 7 Taylor argues that the current claim involves the same  
15:51:18 8 subject matter at the same time against the same defendant  
15:51:20 9 as in the California state court and therefore this case  
15:51:21 10 involves improper claim splitting.

15:51:24 11 There is no question that the same parties are  
15:51:26 12 involved and the litigation is occurring at the same time.  
15:51:30 13 Kytch questions whether the subject matter is the same and I  
15:51:32 14 will address that in a moment.

15:51:34 15 But as an initial matter, Kytch argues that  
15:51:36 16 Taylor is making an abstention argument because claim  
15:51:38 17 splitting does not apply as the actions are not pending in  
15:51:41 18 the same court. Kytch relies on *Walton v. Easton*  
15:51:43 19 *Corporation*, 563 F.2d 66 (3d Cir. 1977) and *McKenna v. City*  
15:51:52 20 *of Philadelphia*, 304 F.App'x 89 (3d Cir. 2008), asserting  
15:51:54 21 that claim splitting can only apply in scenarios where cases  
15:52:02 22 are pending in the same court. I think that Kytch reads  
15:52:04 23 these cases too narrowly. In *Walton* and *McKenna*, the Third  
15:52:06 24 Circuit held that Plaintiff did not have the right to  
15:52:12 25 maintain two separate actions involving the same subject

15:52:14 1 matter at the same time in the same court against the same  
15:52:17 2 defendant. The litigations in both *Walton* and *McKenna* were  
15:52:22 3 pending in the Eastern District of Pennsylvania.

15:52:24 4 Since then, however, other courts in this  
15:52:26 5 circuit have applied claim splitting to cases brought in  
15:52:29 6 different district courts. Taylor cites a number of thirds  
15:52:32 7 these cases in its brief, but I will mention for example,  
15:52:35 8 *Hannah v. S-L Distribution Company*, No. 19-2143, 2021 WL  
15:52:41 9 51581 (M.D. Pa. Jan. 6, 2021) and *Yost v. Anthem Life*  
15:52:44 10 *Insurance Company*, No. 18-1522, 2019 WL 3451507 (M.D. Pa.  
15:53:01 11 July 30, 2019).

15:53:01 12 I also think that *Mohammand v. HSBC Bank N.A.*,  
15:53:04 13 No. 616CV22313ORL41DCI, 2018 WL 8576597 (M.D. Fla. March 27,  
15:53:24 14 2018) resonates. In that case, Plaintiffs opposed dismissal  
15:53:26 15 arguing that claim splitting does not apply to parallel  
15:53:29 16 state and federal litigation. Quoting 10th and 11th Circuit  
15:53:31 17 cases, the *Mohammand* court noted, however, that "[t]he rule  
15:53:34 18 against claim splitting requires a plaintiff to assert all  
15:53:36 19 of its causes of action arising from a common set of facts  
15:53:41 20 in one lawsuit. By spreading claims around in multiple  
15:53:44 21 lawsuits in other courts or before other judges, parties  
15:53:47 22 waste scarce judicial resources and undermine the efficient  
15:53:52 23 and comprehensive disposition of cases." That articulation  
15:53:54 24 of the rationale between claim splitting is consistent with  
15:53:57 25 the law in the Third Circuit. And certainly Delaware state

15:53:59 1 courts as well have examined claim splitting issues between  
15:54:03 2 cases filed in federal and state courts, for example in  
15:54:08 3 *Maldonado v. Flynn*, 417 A.2d 378 (Del. Ch. 1980).

15:54:13 4 I see no reason that the rationale behind those  
15:54:16 5 cases does not apply in this case where the subject matter  
15:54:20 6 of the claim being asserted involves the same series of  
15:54:23 7 events currently pending in California against the same  
15:54:25 8 defendant. Indeed, Plaintiff sought and was given leave to  
15:54:30 9 amend its complaint in California to add the very claim  
15:54:31 10 brought here and based on Plaintiff's own representations  
15:54:31 11 about the interrelatedness of the claims. Thus, I do not  
15:54:31 12 think that the differences in courts takes this out of the  
15:54:41 13 realm of claim splitting.

15:54:41 14 Now to whether the same subject matter is  
15:54:41 15 involved. As Judge Stark recognized in *Power Integrations,*  
15:54:41 16 *Inc. v. Fairchild Semiconductor Int'l, Inc.*, No. CIV.  
15:54:51 17 08-309-JJF-LPS, 2009 WL 2016436, at \*3 (D.Del. July 9,  
15:55:11 18 2009), the "rule against duplicative litigation, also  
15:55:11 19 referred to as 'claim splitting,' is the 'other action  
15:55:11 20 pending' facet of the *res judicata* doctrine." Just as *res*  
15:55:21 21 *judicata* applies to a second action filed after a final  
15:55:21 22 adjudication of the first action, the rule against claim  
15:55:21 23 splitting applies when two suits are pending at the same  
15:55:21 24 time. For that I will also cite to *Nafar v. Hollywood*  
15:55:31 25 *Tanning Systems, Inc.*, 339 F. App'x 216 (3d Cir. 2009)

(noting that claim splitting is generally prohibited by the doctrine of *res judicata*).

Thus, to determine whether a suit is barred by the doctrine against claim splitting, courts borrow from the test for claim preclusion and ask whether assuming the first suit were final could the second suit be precluded for claim preclusion.

In particular, when looking at whether successive lawsuits involve the same cause of action, courts look to:

"(1) whether rights or interests established in the prior judgment would be destroyed or impaired by prosecution of the second action;

(2) whether substantially the same evidence is presented in the two actions;

(3) whether the two suits involve infringement of the same rights; and

(4) whether the two suits arise out of the same transactional nucleus of facts." That's from *Moore v. Williams*, No. CIV.A. 01-330 JJF, 2004 WL 332834, at \*4 (D.Del. Feb. 19, 2004). Of those, the fourth criteria is "the most important."

Here, Taylor argues that Kytch has already conceded in this action and the California state action arise out of the same transactional nucleus of facts.

15:56:51 1 Indeed, at page 3 of its motion to amend its complaint in  
15:56:54 2 the California state action which sought to add multiple  
15:56:57 3 claims, including the Lanham Act claim, Kytch represented  
15:57:01 4 that the additional claims, including the Lanham Act claim,  
15:57:04 5 "relate[d] to the same series of events." In a decision on  
15:57:07 6 a motion for demurrer, the California state court understood  
15:57:11 7 Kytch's arguments to "be an affirmation that its claims  
15:57:14 8 arise 'out of the same transaction, occurrences, or series  
15:57:17 9 of transactions or occurrences'" and granted Kytch's motion  
15:57:21 10 to amend the complaint and add the additional claims.

15:57:24 11 Kytch amended its complaint in the California  
15:57:26 12 state action, but did not add the false advertising claim  
15:57:31 13 under the Lanham Act, and instead filed that claim here.  
15:57:36 14 Because Kytch represented that the Lanham Act claim arose  
15:57:41 15 from the same set of facts and actually sought to add it in  
15:57:44 16 the original California state action, the fourth and most  
15:57:47 17 important criteria is met.

15:57:49 18 Turning to the other factors, the first factor  
15:57:51 19 is neutral because there is yet to be any judgment in the  
15:57:54 20 California state action as it is still pending. As for the  
15:57:56 21 second factor, because the Lanham Act claim is based on the  
15:58:00 22 same series of events and set of facts as the California  
15:58:03 23 state action, substantially the same evidence will be  
15:58:05 24 presented. As to the third factor, Kytch alleges an  
15:58:08 25 infringement of the same rights in this action and the

15:58:12 1 California state action. In California, Kytch alleges in  
15:58:15 2 paragraphs 459 and 465 that "[t]he advertisements contained  
15:58:19 3 false claims about the Kytch Solution and Taylor's own  
15:58:23 4 products and services," such that these claims "eroded  
15:58:27 5 Kytch's good will among consumers and caused Kytch's  
15:58:31 6 customers and prospective customers to cease doing business  
15:58:35 7 with Kytch. This led to the virtual destruction of Kytch's  
15:58:35 8 business and provided [Taylor] with ill-gotten gains."  
15:58:39 9 Kytch makes the same allegations here in support of its  
15:58:41 10 Lanham Act claim in paragraphs 281, 287-88.

15:58:48 11 For the foregoing reasons, I find that Kytch has  
15:58:50 12 split its claims between this Court and the California state  
15:58:53 13 court, and therefore dismiss this complaint. I do so  
15:58:55 14 without prejudice though and I suppose that Kytch may try to  
15:58:59 15 bring the Lanham Act claim in the California state action if  
15:59:01 16 the court there allows it to do that and if Kytch is so  
15:59:05 17 inclined.

15:59:06 18 Next as to McDonald's, I think that there are  
15:59:10 19 sufficient allegations in this complaint at this time to  
15:59:13 20 state the various causes of action other than negligent  
15:59:16 21 interference with business expectancy. I agree with the  
15:59:19 22 California court who addressed this issue vis-a-vis Taylor  
15:59:22 23 that Plaintiff has not pleaded a special relationship with  
15:59:25 24 Kytch that would impose a duty of care of McDonald's.

15:59:28 25 So I am going to grant the motion to dismiss on



15:59:28 1 that ground and deny it with respect to the others.

15:59:31 2 Now, all of that being said, I am not convinced  
15:59:34 3 that this case should go forward now or whether it should be  
15:59:39 4 going forward here versus in California, so I am going to  
15:59:43 5 allow the parties a chance to talk with each other about the  
15:59:46 6 status of things and submit to me briefing on two issues:  
15:59:50 7 1) whether we should stay this case waiting for something to  
15:59:54 8 happen in the other case involving Taylor, which is clearly  
16:00:02 9 for the party that was active in this matter and 2) whether  
16:00:07 10 we should transfer it to California given that the legal  
16:00:10 11 issues and facts are largely based there. You guys can go  
16:00:13 12 and talk and come up with a briefing schedule to address  
16:00:17 13 those issues should either party want to address that.

16:00:21 14 All right? Anything else that we need to  
16:00:24 15 discuss while we are here? Could you say it on the record,  
16:00:30 16 maybe?

16:00:34 17 MR. WATKINS: No, Your Honor.

16:00:38 18 MS. LUI: No, Your Honor.

16:00:41 19 MR. MICHELETTI: No, Your Honor. Thank you.

16:00:45 20 THE COURT: Thank you. I will have an order  
16:00:48 21 entered on the docket and we will use the transcript as the  
16:00:51 22 basis for my order.

16:00:55 23 COURT CLERK: All rise.

24 (Court adjourned at 4:00 p.m.)  
25

1 I hereby certify the foregoing is a true and  
2 accurate transcript from my stenographic notes in the proceeding.

3 /s/ Dale C. Hawkins  
4 Official Court Reporter  
5 U.S. District Court  
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